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MEMO

TO: CITY OF LINCOLN

FROM: STEPHANIE BEAUCHAINE, FINANCE CONSULTANT

SUBJECT: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2019

DATE: JANUARY 6, 2020

CC:

Summary

On behalf of the Finance team, please find attached the Audited Financial Statements for the year ending June 30, 2019 which include: The Comprehensive Annual Financial Report fiscal year ending June 30, 2019 (CAFR), the Single Audit for the year ended June 30, 2019, Management Letter, SAS 114 Audit Communication, and Appropriations Limit Calculation as of June.

The City has scheduled review of the CAFR and Auditor presentation for 1/15/2020 with the FIOC Committee and 1/28 with the City Council. A detailed presentation will be provided at that time, but this summary will provide you with the basic analysis.

Comprehensive Annual Financial Report (CAFR) June 30, 2019

The City's CAFR consists of three primary components: the Introductory Section, Financial Section, and the Statistical Section. The Highlights are as follows:

1. Introductory Section
 - a. Transmittal Letter
 - i. The City Managers Transmittal Letter which provides information on the City profile, the local economy, long-term financial planning, and major initiatives.
 1. The transmittal letter bridges the gap of understanding between the City's financial position and how it relates to operating plan. It also identifies outside influences such as economic factors and other challenges facing the City.
2. Financial Section
 - a. Independent Auditors Report: The City has received an "unmodified opinion" from the auditors which means the auditors believe that the City's financial statements as

- presented fairly in all material aspects. This is good and typically what we look for when evaluating an audit.
- b. Management's Discussion and Analysis (MD&A): The MD&A is a management prepared narrative analysis of the financial statements. This report is particularly useful in understanding the "why" of the financial statements, and also provides an opportunity for better understanding of folks who aren't comfortable reading and/or analyzing financial statements in pure form.
 - c. Basic Financial Statements: The Basic Financial Statements include all of the required financial statements, as well as the notes to the financial statements which provide supplementary information and context to the statements themselves.
 - d. Required Supplementary Information: The supplementary section provides additional schedules and statements to aid in the understanding of the financial statements and operating performance.
3. Statistical Section
- a. The Statistical Section provides the reader further in depth analysis and statistical data for areas of potential interest including:
 - i. Financial trend analyses
 - ii. Revenue data
 - iii. Debt data
 - iv. Economic and demographic information
 - v. Operating information

Single Audit and Related Reports for the year ended June 30, 2019

The City's Single Audit consists of six primary components: Report on Internal Controls, Report on compliance, Schedule of Expenditures of Federal Awards (SEFA), Notes to the SEFA, Schedule of Findings and Questioned Costs, and Schedule of Prior Year Findings. Highlights are as follows:

- 1. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
 - a. Internal Control Over Financial Reporting- Significant Deficiency
 - i. Material Weaknesses were reduced from 2 in the prior year to 1 in FY 2019-20. An internal control deficiency is defined as "when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis."
 - 1. Special Assessment Debt Funds
 - ii. One significant deficiency was identified in comparison to 4 in the prior year. A significant deficiency is defined as "a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention of those charged with governance."- Material Weaknesses
 - 1. Grant Accounting (Repeat Finding)
 - iii. One instances of Non-Compliance with program guidelines was identified in comparison to 3 the prior year.
 - 1. Federal Grant Procedures Manual (Repeat Finding)
- 2. Independent Auditor's Report on Compliance for Each Major Program on Internal Control Over Compliance Required by the Uniform Guidance
 - a. Opinion on Each Federal Program- The auditors have offered a clean opinion on federal compliance. "In our opinion, the City, complied in all material aspects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs..."
- 3. Overall- Findings were reduced from nine in FY 2017-18 to three in FY 2018-19

City of Lincoln Management Letter

The management letter details the auditor's report of internal control deficiencies both current and prior. A total of twelve internal control deficiencies were identified in the current year; six repeat and six new, five of the prior year findings were implemented and removed. The 2018-19 findings are as follows:

1. Payroll (Repeat - Proof of review not on file, and data does not reconcile to the GL.
2. Cash Disbursements (Repeat) - Proof of review not on file, and Cal-Card approval not documented.
3. Other Post-Employment Benefits (OPEB) Census Data (Repeat) - OPEB Census data not reviewed for accuracy.
4. Vendor Monitoring - No review of vendor input, or review of stale vendors.
5. Developer Deposits - Deposits on file not properly monitored.
6. Hydrant Deposits - Deposits on file not properly monitored
7. IT Springbrook Access (Repeat) - Springbrook users in some circumstances have too broad of access to information.
8. Special Revenue Funds - Funds earmarked special revenue that should be re-classified.
9. Capital Assets - Inventory depreciated assets and remove them from the schedule.
10. Support Services Department Organization (Repeat) - Supervision of finance department staff may prohibit cohesion.
11. Resolution of Internal Control Deficiencies (Repeat) - Establish reporting on the resolution of control deficiencies.
12. Financial Close - Immaterial errors were found resulting in re-classification journal entries.

SAS 114 Audit Communications

The SAS 114 Audit Communication is prepared for the purpose of transmitting important information to those charged with governance. The highlights are as follows:

1. Difficulties encountered while performing the audit: none.
2. Corrected and Uncorrected Misstatements:
 - a. Attachment A summarizes uncorrected misstatements. (These are immaterial adjustments that management "passed" or did not book.)
 - b. Attachment B Audit Adjustments (These are adjustments that were booked after the commencement of the audit fieldwork.)
 - c. Attachment C Reclassifications (These are reclassifications that were booked after the commencement of the audit fieldwork.)

Disagreements with Management: No disagreements were noted

City of Lincoln Appropriations Limit Calculation

The auditors have reviewed the City's appropriations limit calculations for the year ended June 30, 2019 and no exceptions were noted. This is the desired result.